



The Research Bureau

Teacher's Compensation Package  
+ Worcester's Finances  
Do They Add Up?

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## EXECUTIVE SUMMARY

The negotiations between the Worcester School Committee (WSC) and the Education Association of Worcester (EAW) over a new teachers' contract have broken down. The two sides must therefore go through a formal mediation process in order to settle a new contract for the 1,900 teachers in the City.

The main sources of disagreement concern salaries and health insurance:

- The WSC wants all teachers to pay 25% of their employee health insurance premiums and accept some plan design changes. Currently, only teachers hired since July 1, 2006 pay 25% of their premiums.
- To minimize the impact of this increased cost-sharing, the WSC has offered a \$1,000 increase in base pay to *all* teachers (including those who do not receive health insurance from the school department). However, the School Committee made clear that it would be unable to offer any additional raise to teachers due to the prevailing uncertainty about its finances.
- The EAW has rejected this offer, and instead is demanding an 8.5% raise over the next three years in exchange for the increased health insurance cost-sharing.

In other words, the negotiations are primarily concerned with fiscal issues, not education policy. The School Committee is not seeking significant concessions on such issues as tenure, pay for performance, or greater principal authority over hiring and firing. These have been the focal points of other teacher contract negotiations elsewhere and some were also part of the package of reforms promoted in President Obama's Race to the Top program.

These negotiations are being conducted during a time of considerable fiscal uncertainty for the Worcester Public Schools (WPS). As a result of close to \$60 million in Federal stimulus funds, the WPS has been spared the cuts experienced by Worcester's other municipal departments during the recession. The stimulus funds will be almost entirely depleted by FY12, leaving the school department with a structural deficit going into next fiscal year of over \$12 million.

This uncertainty is compounded by the City's and state's equally bleak fiscal outlooks. Worcester and Massachusetts both face significant structural deficits for FY12, which means they will both be less able to assist the WPS than in prior years.

In short, Worcester is struggling with a highly uncertain future and thus wants to reach a settlement with the EAW that will bring more, not less, certainty to its financial situation.

There are only two conditions under which the WPS could absorb the EAW's proposal: by laying off teachers and/or by assuming that state and local revenues will grow at a higher rate than they have in the recent past, indicating that there would be more new revenue to dedicate to WPS.

If the first option is unacceptable to the School Committee because of its impact on the students and the revenue assumption is dubious, then the EAW offer cannot be sustained by the budget.

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## INTRODUCTION

Collective bargaining negotiations between municipalities and public employee unions are rarely matters of public debate, as many of the specifics are not known by the general public until the contract has been signed. The general practice is "we don't bargain in public," and it is usually observed by both management and labor.

The WSC broke from this practice recently when it issued a press release about its negotiations with the EAW. This document made public the fact that negotiations have become stalemated, the nature of some of the issues over which the two sides continue to disagree, and the news that the School Committee has decided to seek a mediator.

The last contract between the School Committee and the EAW ended in August, 2009. Having come to the

conclusion that face-to-face negotiations were not making any progress, the School Committee filed for mediation with the state's Division of Labor Relations in September, 2010. The state then appointed a mediator, who will meet with the parties, and try to broker a deal that is satisfactory to both. This process can continue indefinitely, for as long as the mediator deems the process worthwhile.

It is important to emphasize that mediation is very different from binding interest arbitration. (Binding interest arbitration does not apply to school and municipal employees except for police and fire.) Mediation is simply an extension of collective bargaining. At no point will the School Committee or the union be compelled to agree to a settlement that it judges unacceptable.

## WHAT ARE THE MAIN SOURCES OF DISAGREEMENT?

The main issues at stake in the negotiations are teacher salaries and health insurance, both huge line-items in the WPS budget. Worcester employs about 1,900 teachers, the biggest employee group by far, and close to half of the City's total workforce. Teacher salaries and health insurance constitute about 55% of the School Department's FY11 budget of \$273 million (**Table 1**).

	FY10	FY11
<b>Teacher Salaries</b>	\$129,265,433	\$128,289,156
<b>Teacher Health Insurance</b>	\$19,782,862	\$21,610,094
<b>Total WPS Budget<sup>1</sup></b>	\$272,538,334	\$273,053,182
<b>% of Total</b>	54.7%	54.9%
<i>Source: WPS FY11 Budget</i>		

The WSC<sup>2</sup> wants all teachers to pay 25% of their employee health insurance premiums and also to accept some unspecified plan design changes (presumably shifting more costs from premiums to employee co-pays for doctor's visits, ER visits, and prescription drugs). Currently, only teachers hired since July 1, 2006 pay 25% of their premiums. According to the

School Department, a 25% contribution rate for all teachers would have meant \$2.4 million in savings on health insurance in FY11 and \$2.2 million in FY10. Most employees covered by the School Department are enrolled in the most expensive plan (Blue Cross) with the lowest contribution rates and lowest co-pays (**Appendix 1: WPS Health Insurance Costs for Employer and Employee, FY11**). Hence the School Department's desire to raise co-pays and employee contribution rates for all teachers during the current negotiations.

Had all teachers been paying 25% of their health insurance premiums (and higher co-pays) in FY11, the vast majority of them (those on Blue Cross) would have paid \$1,059, or 25% more for a family plan and \$314, or 18% more, for an individual plan (**Appendix 1**). In recognition of this increase, the School Committee has offered to *all* teachers (including those who do not receive health insurance from WPS) \$1,000 to be built into their base pay. For a teacher making \$70,000, the average pay for a WPS teacher, this would mean, in effect, a 1.5% raise. As the School Committee notes in its press release, these pay increases would more than absorb the increased health insurance cost-sharing, and for most teachers would mean an outright raise. As a result, there would be no savings in overall budgetary costs to the City during the first year in increased employee contributions. However, the School Committee made

clear that it would be unable to offer any additional raise to teachers due to the prevailing uncertainty about its finances.

According to the School Committee's press release, the EAW has rejected this offer, and instead is demanding an 8.5% raise over the next three years in exchange for the increased health insurance cost-sharing. If current staffing levels were maintained, this would mean a \$10.5 million increase in salary expenditures by FY12. The impact of this raise would be intensified by the fact that the portion assessed for FY10, the first year of the raise which began shortly after the last contract expired, would be awarded retroactively, whenever the contract is settled. As a matter of state law (MGL Ch. 44, §68), the City can only give retroactive pay raises for the previous fiscal year.

This raise would be in addition to the contractually-mandated "step" increases that teachers receive during their first ten years of employment. Thus, even if no teacher raises were granted over the next ten years, step increases guarantee that most starting teachers would still receive a 50% increase in base pay during that period. Longevity stipends guarantee an additional \$500 annual raise every five years after that. In FY11, WPS' salary costs increased by \$2 million due to such longevity and step raises.

The WSC's chief concern in these negotiations is to improve the WPS' finances. According to its press release, members are not seeking any significant concessions on substantial education policy issues, such as tenure, pay for performance, greater principal authority over hiring and firing, seniority or teacher evaluations. Other districts nationwide have placed these issues at the center of their collective bargaining negotiations. President Obama's Race to the Top program also sought to influence state-level changes in teacher evaluation and compensation practices.

In order to give some context for these offers and counter-offers, the next section will provide an overview of the total compensation package for teachers under the current contract. Public employee contracts and compensation frameworks tend to be quite complex and it is important for taxpayers to understand their various components, and how much each contributes to the bottom line. This section will be followed by an overview of the WPS' current fiscal situation.

## TEACHERS' COMPENSATION PACKAGE

As of February 2010, there were 2,058 teachers employed by the WPS. This figure, from the WPS' Human Resources Department's Annual Report, includes temporary replacements for those on leave. The total that earned a full year's salary in 2009 was significantly less than this, closer to **1,863**.

**Tables 2 and 3** display the figures for years of service and age for this cohort.

Years of Service	# of Teachers	% of Cohort
0-5	502	24%
5-10	404	20%
11-15	462	22%
16-20	301	15%
21-25	253	12%
26-30	31	2%
Over 31	105	5%

*Source: WPS HR Dept. 2009 Annual Report*

Age	# of Teachers	% of Cohort
21-30	181	9%
31-40	449	22%
41-50	611	30%
51-60	630	31%
Over 61	187	9%

*Source: WPS HR Dept. 2009 Annual Report*

### Base Salary

Teachers start with a base salary and receive automatic "step" raises for the first ten years of their careers (**Table 4**).

Step	Base	% Raise
1	\$40,378	N/A
2	\$42,649	5.6%
3	\$45,932	7.7%
4	\$48,205	4.9%
5	\$50,480	4.7%
6	\$52,752	4.5%
7	\$55,029	4.3%
8	\$60,059	9.1%
9	\$63,723	6.1%

*Source: 2005-9 Teachers' Contract*

Between their first and ninth years of employment, teachers are thus guaranteed a 47% increase in base salary (plus any base wage adjustments won in collective bargaining). **Table 5** relates the raises teachers received during the last contract.

<b>Table 5: Teacher Salary Increases During Prior Contract</b>	
<b>School Year</b>	<b>Raise</b>
<b>2005-6</b>	2.5%
<b>2006-7</b>	2.5% (and \$1350 health insurance adjustment stipend)
<b>2007-8</b>	3%
<b>2008-9</b>	3% (and \$375 stipend)
<i>Source: 2005-9 Teachers' Contract</i>	

Between the 2005-6 and 2008-9 school years, teachers received a 14% increase in pay.

**Extra Stipend Pay**  
*Educational Incentive Pay*

In addition to their base salary and step increases, teachers receive increased compensation for advanced educational degrees (**Table 6**).

<b>Table 6: Educational Incentive Pay for Teachers</b>									
<b>Step</b>	<b>Bachelor's</b>	<b>Master's</b>	<b>Master's vs. Bachelor's (% increase)</b>	<b>Bachelor's + 15 Credits</b>	<b>Master's + 15 Credits</b>	<b>B+15 vs. M+15 (% increase)</b>	<b>Master + 30 credits</b>	<b>Certificate of Advanced Graduate Study</b>	<b>Doctorate</b>
1	\$40,378	\$45,841	14%	\$42,499	\$46,904	10%	\$48,343	\$50,015	\$55,276
2	\$42,649	\$48,113	13%	\$44,771	\$49,179	10%	\$50,618	\$52,290	\$57,549
3	\$45,932	\$51,392	12%	\$48,050	\$52,458	9%	\$53,896	\$55,570	\$60,831
4	\$48,205	\$53,667	11%	\$50,328	\$54,732	9%	\$56,173	\$57,844	\$63,106
5	\$50,480	\$55,942	11%	\$52,601	\$57,006	8%	\$58,446	\$60,117	\$65,378
6	\$52,752	\$58,213	10%	\$54,876	\$59,281	8%	\$60,719	\$62,390	\$67,653
7	\$55,029	\$60,488	10%	\$57,146	\$61,557	8%	\$62,995	\$64,667	\$69,925
8	\$60,059	\$65,522	9%	\$62,180	\$66,590	7%	\$68,027	\$69,698	\$74,959
9	\$63,723	\$69,185	9%	\$65,845	\$70,254	7%	\$71,691	\$73,363	\$78,623
<i>Source: 2005-9 Teachers' Contract</i>									

**Longevity Pay**

**Table 7** lists the annual longevity stipends that teachers receive after their first 10 years of employment.

<b>Table 7: Annual Longevity Pay for Teachers</b>	
10-15 years	\$500
15-20 years	\$1,000
20-25 years	\$1,500
25-30 years	\$2,000
30+ years	\$2,500
<i>Source: 2005-9 Teachers' Contract</i>	

**After-School Stipend and Professional Development Pay**

According to their contract, teachers work 183 days a year (180 with the students and 3 professional development days) and five days a week. Elementary school teachers work 6 hours a day and secondary teachers work 6.5 hours a day. The basic salary schedule covers compensation for this work. For tasks and training that go beyond the typical workweek and school year, teachers are granted additional compensation as dictated by the contract.

After-School Stipend pay is given for teachers providing supplemental services to students, such as in Level 4 schools (those designated as underperforming by the Department of Elementary and Secondary Education). Professional development pay is for attending conferences, or for courses or training to obtain special knowledge or skills. The rate of compensation for both

is \$30/hour, and both are often funded by grants either from private foundations (such as the Massachusetts Math and Science Initiative grants for Advanced Placement teachers) or competitive Federal and state grant programs. In 2009, the average WPS teacher received \$660 in After-School Stipend pay and \$418 in Professional Development pay.

<b>Table 8: After-School and Professional Development Stipend Earnings, 2009</b>		
	<b>After School</b>	<b>Professional Development</b>
<b>0-\$1,000</b>	1625	1866
<b>\$1,000-5,000</b>	386	175
<b>\$5,000-10,000</b>	55	23
<b>\$10,000+</b>	1	3
<b>Total</b>	2067	2067
<i>Source: WPS HR Dept.</i>		

**Extra-Paid Positions**

Teachers are also able to earn extra compensation for taking on a variety of part-time positions within the School Department (**Table 9**). The terms of these positions (specific responsibilities, hours) are not defined by the contract and they are mostly flat stipends. The contract lists over 40 different types of extra-paying stipends, which range in cost from \$637 (for Yearbook Advisers) to \$6,214 (for Team Evaluation Chairperson); most are in the \$1,000-2,000 range.

<b>Table 9: Selected "Extra-Paid Position Stipends"</b>	
<b>Position</b>	<b>Compensation</b>
Department Heads	\$1,500-2,600
Reading Consultants	\$2,546
Fiscal Monitor	25% of regular salary
Charter I Head Teachers	\$2,841
Team Evaluation Chairperson	\$6,214
Yearbook Adviser (High School)	\$1,271
Drama Club Coach	\$1,042
Yearbook Adviser (Middle School)	\$637
Newspaper Adviser (Middle School)	\$637
Elementary Assistants to the Principal	\$9,291
<i>Source: 2005-9 Teachers' Contract</i>	

Another way to think of these "Extra-Paid Positions" (the term in the contract) is as administrative functions performed by teachers. The WPS Human Resources department emphasizes that these functions are all essential to the operation of the WPS. They are termed "extra-pay" because of the nature of collective bargaining in which all members have to begin with a basic salary schedule. (In a non-union situation, a department head or coach would likely get a higher salary rewarded independently.)

## **Fringe Benefits**

### ***Paid Leave (Sick, Holiday, and Vacation)***

Technically, teachers have no paid holiday or vacation leave. All their time-off is considered accounted for by the mandated 183-day year. As for sick leave, teachers are granted fifteen sick days per year and use seven, according to the City's Human Resources Department. They are allowed to accumulate up to 200 days, some of which they can buy back upon retirement. Teachers are allowed to buy back unused sick leave through two programs. In the first, basic buy-back program, any teacher who has at least 20 years of service may exchange 165 days at \$10 a day, and \$25 for any additional day, up to a maximum of \$2,525. This sum may not be used as part of a pension calculation.

The second program was instituted by the WPS administration in order to encourage teachers to announce their retirement plans at least a year in advance. Under this program, teachers with 20 years of service who announce their retirement a year in advance may exchange 15 days at a per-diem rate. This ends up being around \$5,000 for most teachers, significantly more than the conventional buy-back program.

### ***Professional Teacher Status***

As in many other states, public school teachers in Massachusetts enjoy significant protections against

termination. "Professional Teacher" status means that, after three full years of teaching in the same district, any teacher threatened with dismissal has a right to "just cause protections" and grievance arbitration protection. The arbitrator generally is authorized to reinstate a teacher if he deems the grounds for firing to have been unfair. These protections do not apply to teachers laid off due to declining enrollment or budgetary pressures, but state law does mandate that teachers without "professional" status be laid off before any with that status (and who are certified to teach in the position in question).

#### **Health Insurance**

WPS employees have access to the same health-insurance plan offerings as all other municipal employees, but, since their contribution rate and plan design are set by collective bargaining, the cost of health insurance differs (**Table 10**). As **Table 10** shows, most teachers choose Blue Cross/Blue Shield, the most expensive plan. Teachers hired after July 1, 2006 pay 25% of their health insurance premiums and all hired prior to that date pay 20%. If *all* school employees had paid 25% in FY10, the WPS would have saved \$3.3 million, \$2.2 million from teachers alone.

**Table 10: WPS Plan Participation, February 2010<sup>3</sup>**

Plan	Total Cost	Cost to Employer	Number of Participants
BCBS Family (20%)	\$20,847	\$16,677	630
BCBS Family (25%)	\$19,544	\$15,635	48
BCBS Individual (20%)	\$7,950	\$6,360	267
BCBS Individual (25%)	\$7,453	\$5,962	76
Fallon Select Family (20%)	\$17,279	\$13,823	267
Fallon Select Family (25%)	\$16,199	\$12,959	49
Fallon Select Individual (20%)	\$6,665	\$5,332	74
Fallon Select Individual (25%)	\$6,248	\$4,999	35
Fallon Direct Family (20%)	\$14,273	\$11,418	91
Fallon Direct Family (25%)	\$13,381	\$10,705	8
Fallon Direct Individual (20%)	\$5,556	\$4,445	48
Fallon Direct Individual (25%)	\$5,209	\$4,167	25
None			449
			2067

Source: WPS HR Dept.

#### **Pensions**

Retirement benefits for teachers in Worcester and Massachusetts are a matter of state law, not collective bargaining. Teachers receive a defined-benefit pension the value of which is a function of their highest three-year average salary, length of service, and age at retirement. Teachers are members of Group 1 ("general employees"), the largest group containing most non-public safety state and local employees.

Teacher pensions differ somewhat from other members of Group 1 as a result of Retirement Plus, a pension-enhancement bill for teachers passed by the state Legislature in 2000. Under Retirement Plus, after 30 years of service, the retiree's pension is increased by 2% for each year in excess of 24. At a minimum, this means a pension increase of 12%, since  $(30-24) \times 2\% = 12\%$ . While this benefit applied to new teachers, whose contribution rate Retirement Plus raised from the normal 9% plus 2% above \$30,000 to 11%, veteran teachers were given the option of "buying-in" by paying the equivalent of five years' worth of contributions at the 11% rate.

Teachers are the only municipal employees who are not part of the Worcester Retirement System. As is the case in most other states, all teachers in Massachusetts (with the exception of Boston) are in a separate, statewide retirement system for teachers, the Massachusetts Teachers Retirement System (MTRS). Teacher pensions are paid for by state, not local government (though they are still, of course, a public, taxpayer expense).

According to the MTRS, the average annual teacher pension statewide is currently \$34,347. The cost to the employer, in this case the state (and the taxpayer), of providing these types of retirement benefits to active teachers

(the "employer normal cost" in actuarial language) is 2% of salary.<sup>4</sup>

### Retiree Health Care

Unlike pensions, health care benefits for retired teachers are the City's responsibility. In its actuarial valuation of its retiree health care liability, the City does not separate out teachers from other public school employees. The City does, however, provide a figure for the cost (total and annual) for an individual retiree from the School Department (Table 11).

**Table 11: Retiree Health Care Costs for Active Worcester Public Schools Personnel (Group 1)**

	Using the 4% Investment Assumption <sup>5</sup>	Using the 8.25% Investment Assumption
<b>Liability</b>	\$378,440,873	\$171,597,593
<b># of members</b>	2696	2696
<b>Total Liability per member</b>	\$140,371	\$63,649
<b>Annual Cost over a 25-year career</b>	\$5,615	\$2,546
<b>Annual Cost over a 30-year career</b>	\$4,679	\$2,122

*Source: City of Worcester Actuarial Valuation and Review of Other Postemployment Benefits as of June 30, 2008*

### Three Typical Teachers

To put in more concrete terms, what the preceding breakdown of WPS teachers' compensation packages shows is that

the total cost of employing a first-year teacher is likely to be **\$52,302** or **30%** more than the base of \$40,378. The total cost for a teacher with 15 years experience is **\$104,071**, or **63%** more than the \$63,723 base, while for a teacher with 25 years of experience and Master's with 30 Credits it is **\$108,091**, or **70%** more than the base of \$63,723 (See **Appendix 2** for the full calculation).

## THE WPS' FISCAL SITUATION

The preceding analysis of teacher compensation provides a necessary context to understanding the current contract negotiations, but the most important question to ask about the next teachers' contract is what can the WPS afford? What is the status of the WPS' finances? **Table 12** gives an overview.

**Table 12: WPS' Five-Year Revenue and Expenditure Forecast**

	FY09 Actual	FY10	FY11	FY12 (Projected)	FY13 (Projected)
<b>General Fund Revenues</b>	\$260,275,807	\$272,115,375	\$285,520,209	\$294,944,719	\$300,703,075
<b>Stimulus Funds</b>	\$18,981,512	\$24,083,296	\$12,643,919	\$0	\$0
<b>Total Revenues</b>	\$279,257,319	\$296,198,671	\$298,164,128	\$294,944,719	\$300,703,075
<b>WPS Expenditures</b>	\$256,622,316	\$272,538,334	\$273,053,182	\$281,643,867	\$294,767,702
<b>WPS Expenditures and Tuition Assessments</b>	\$279,253,083	\$296,198,671	\$298,164,128	\$307,218,587	\$320,815,471
<b>Deficit</b>	\$4,236	\$0	\$0	-\$12,273,868	-\$20,112,396

As **Table 12** makes clear, the WPS has relied heavily on Federal stimulus funds to balance its budget over the last three fiscal years. Including the money it will receive as a result of Massachusetts winning the Federal Race to the Top competition and the passage of the \$14 billion "EduJobs" bill in August, the WPS will be granted a total of over \$60 million in Federal stimulus funds enacted during the recession (**Table 13**).

**Table 13: Total Stimulus Funds Received by WPS by Program**

Program	Amount	Use
<b>State Fiscal Stabilization Fund</b>	\$39.4 million	Foundation-level Ch. 70 spending in FY09-11
<b>IDEA programs</b>	\$8.4 million	Special education in FY10 and FY11
<b>Title 1</b>	\$7.9 million	Programs benefiting low income students in FY10 and FY11
<b>Race to the Top</b>	\$6.9 million	A variety of reforms over the course of FY11-14
<b>EduJobs</b>	\$1.9 million	Address FY12 deficit
<b>Total</b>	<b>\$64.5 million</b>	

Source: WPS

Some of the Race to the Top and EduJobs funds will be available in FY12, but not nearly enough to address WPS' structural deficit.

The figures for FY12 and FY13 represent the WPS' estimates of the expenditures that would be required to support the same level of service provided in FY09-11. These estimates assume current employee contribution rates for health insurance premiums and no changes in plan design. They also assume no raises.

In fact, it is possible that the preceding table understates the WPS' deficit over the next two years. The WPS is highly dependent on the fiscal condition of the City and the state and thus will be affected by any cuts they may have to make. About 69% (\$187,838,166 of \$273,053,182) of the WPS budget comes from the Commonwealth's Chapter 70 funds. Though the state resisted cutting Chapter 70 education aid in FY09 and FY10, it was forced to do so in FY11. It may be compelled to do so again, due to its own reliance on over \$2 billion in one-time revenues for recurring expenses in FY11.<sup>6</sup>

Furthermore, according to the City Manager's most recent estimate, Worcester faces a \$13.7 million deficit in FY12 (**Table 14**).

**Table 14: Worcester's FY12 Budget Deficit**

Cause	Cost (millions)
Increased Pension Contribution	\$5.0
Increase in Debt Service	\$1.3
Health Insurance Premium Increase	\$3.5
Increased Contribution to WPS	\$1.7
Increased Snow Removal Contribution	\$1.0
Operational Increases (step increases, utility and energy cost increases, loss of Federal grants for police and fire positions)	\$4.2
<b>Total (less \$3 million projected net revenue increase)</b>	<b>\$13.7</b>
<i>Source: City Manager's November 23, 2010 Communication to the City Council</i>	

Once again, projected revenue increases will fail to keep up with increases in fixed costs (**Table 15**).

**Table 15: City of Worcester Spending on Fixed Cost, Education, and Operations, FY08-12**

	FY08	FY09	FY10	FY11	FY12
<b>Total Revenue Sources</b>	\$475.7	\$480.1	\$506.0	\$506.1	\$509.1
<b>Spending on Fixed Costs</b>	\$92.7	\$106.1	\$105.6	\$107.0	\$117.7
<b>Spending on K-12 (including Charter Schools)</b>	\$265.8	\$260.6	\$288.0	\$289.2	\$291.0
<b>Balance for Municipal Departments</b>	\$117.2	\$113.4	\$112.4	\$109.9	\$100.4
<b>Balance as Share of Total Revenues</b>	24.6%	23.6%	22.2%	21.7%	19.7%
<i>Source: City Manager's November 23, 2010 Communication to the City Council</i>					

As **Table 15** illustrates, municipal operations have largely borne the brunt of the collapse in state and local revenues. Spending on fixed costs (pensions, health insurance and debt service) and public education has gradually absorbed greater and greater shares of available expenditures, leaving less and less for other vital municipal operations such as public safety and public works. By FY12, Worcester will actually be devoting more revenues to fixed costs than to municipal (non-school) services.

The WPS will not be directly affected by Worcester's FY12 deficit. Massachusetts requires Worcester to contribute a minimum amount to WPS. The only way for it even to be an option for the City to reduce its contribution is if the state cuts its Chapter 70 contribution.<sup>7</sup> (The situation would be different in communities that contribute more than the state-required foundation amount, but Worcester does not.) Yet the City's tight fiscal situation means that it will be less in a position to come to the WPS' assistance in the event of state cuts.

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## CONCLUSION

The most important factor to weigh when considering the offers and counter-offers by the WSC and EAW is the WPS' extremely shaky fiscal position. The school department must be extremely cautious in taking on new spending commitments (such as raises) and be aggressive in reining in those which it is in a position to do so (such as health insurance).

Ninety percent of the school department's budget is personnel costs. For as long as the fiscal crisis persists, the WPS will be forced to choose between supporting and increasing its compensation packages to teachers, which will result in layoffs of other employees or reducing costs in order to maintain current staffing and service levels. There are only two conditions under which the WPS could absorb the EAW's proposal: by laying off teachers and/or by assuming that state and local revenues will grow at a higher rate than they have in the recent past, indicating that there would be more new revenue to dedicate to WPS.

If the first option is unacceptable to the School Committee because of its impact on the students and the revenue assumption is suspect, then the EAW offer cannot be sustained by the budget.

## APPENDIX 1: WPS HEALTH INSURANCE COSTS FOR EMPLOYER AND EMPLOYEE, FY11

**Appendix 1** illustrates the difference in cost for employer and employee under both the current and proposed arrangements.

Health Insurance Plan Costs, All School Department Employees, FY11						
Plan	Employee Group	Current Deal	Total Cost of Family/Individual Plan	Employer Cost Family/Individual Plan	Employee Cost Family/Individual Plan	Total Enrollment (includes some retirees)
Blue Choice	Non-union, Settled and Retirees	25% and new plan design	\$21,305/\$8,127	\$15,979/\$6,095	\$5,326/\$2,032	702
Blue Choice	New Hires, Non-Settled Groups	25% and old plan design	\$22,515/\$8,587	\$16,886/\$6,440	\$5,629/\$2,147	171
Blue Choice	Non-Settled Groups	20% and old plan design	\$22,515/\$8,588	\$18,011/\$6,870	\$4,503/\$1,718	1276
Fallon Select	Non-union, Settled and Retirees	25% and new plan design	\$17,068/\$6,621	\$12,801/\$4,966	\$4,267/\$1,655	170
Fallon Select	New Hires, Non-Settled Groups	25% and old plan design	\$18,308/\$7,065	\$13,731/\$5,299	\$4,577/\$1,766	143
Fallon Select	Non-Settled Groups	20% and old plan design	\$18,308/\$7,065	\$14,646/\$5,652	\$3,662/\$1,413	651
Fallon Direct	Non-union, Settled and Retirees	25% and new plan design	\$13,853/\$5,377	\$10,390/\$4,033	\$3,463/\$1,344	78
Fallon Direct	New Hires, Non-Settled Groups	25% and old plan design	\$14,777/\$5,759	\$11,083/\$4,319	\$3,694/\$1,440	69
Fallon Direct	Non-Settled Groups	20% and old plan design	\$14,778/\$5,759	\$11,822/\$4,607	\$2,956/\$1,152	270

Source: WPS FY11 Budget, Research Bureau calculations

## APPENDIX 2: COMPENSATION PACKAGES FOR THREE "TYPICAL" TEACHERS

This table presents the total compensation package for three "typical" teachers based on years of service and level of education attained. (Note: According to the WPS HR Dept.'s 2009 Annual Report, 615 teachers (30%) had a Master's Degree and 392 (19%) had a Master Degree with 30 Credits.)

<b>Years of Service</b>	1	15	25
<b>Advanced Degree</b>	Bachelor's	Master's	Master's + 30 Credits
<b>Base (includes educational incentive pay)</b>	\$40,378	\$63,723	\$63,723
<b>Educational Incentive Pay</b>	\$0	\$5,462	\$7,968
<b>Longevity</b>	\$0	\$1,000	\$2,000
<b>After-school stipend (average for that length of service)</b>	\$448	\$987	\$106
<b>Professional Development (average for that length of service)</b>	\$219	\$887	\$247
<b>Extra pay</b>	\$667	\$8,336	\$10,321
<b>Total including extras</b>	\$41,045	\$72,059	\$74,044
<b>Differential between total and base</b>	1.7%	13.1%	16.2%
<b>Health Insurance Plan (Employee Contribution Rate)</b>	Fallon Direct Individual (25%)	BCBS Family (20%)	BCBS Family (20%)
<b>Health Insurance (Employer's Share)</b>	\$4,167	\$16,677	\$16,677
<b>Pension (Employer's share of normal cost for a given year)</b>	\$808	\$1,384	\$1,434
<b>Retiree Health Insurance</b>	\$5,615	\$5,615	\$5,615
<b>Full Cost</b>	\$52,302	\$104,071	\$108,091
<b>How much do all the Extras increase Base Salary?</b>	30%	63%	70%

<sup>1</sup> This figure does not include grant-funding.

<sup>2</sup> On the school-side of City operations, it is the school committee (the legislative body), that is engaged in negotiations with the union, not the superintendent (the executive). The formal title of the most recent teachers' contract was "Agreement between the Worcester School Committee and the Educational Association of Worcester: September 1, 2005 - August 31, 2006 and September 1, 2006 - August 31, 2009." This is the case elsewhere in Massachusetts and in other states as well. Superintendents were exempted from collective bargaining matters in order to allow them to focus more exclusively on educational matters.

<sup>3</sup> Note-the "Total Cost" figures here vary because the employees who pay 25% also have different plan designs (higher copays). The figures in this table do not squarely line up with those in **Appendix 1** because they are from February, 2009, and therefore reflect the premium costs for FY10 (**Appendix 1** shows the costs for FY11). Also, this table relates the figures for current teachers only, whereas **Appendix 1** includes information on all School Department employees and some retirees.

<sup>4</sup> Source: "Providing Pensions in Difficult Times: A Comprehensive Study of the Massachusetts Pension System and Its Impact on the City of Boston," The Boston Foundation and Boston Municipal Research Bureau, May 2010, p. 27. The figure is as of 1/1/06. A few caveats are in order with regard to this figure. First, newer teachers contribute at higher rates and are thus less expensive to the system than older teachers. Second, Worcester's cohort could be, on average, older or younger than the state average. Third, this figure does not differentiate between teachers who elect to participate in Retirement Plus vs. those who do not.

<sup>5</sup> Estimates of a total pension or retiree health care liability can vary widely based on how much a plan sponsor assumes it will earn on its invested assets. Worcester can discount the total amount that it will be obliged to contribute out of its revenues by its expected investment earnings. For this reason, the return on investment actuarial assumption is often referred to as the "discount rate." Since Worcester has not set aside any funds for its retiree liability, it calculates its liability using both a conservative 4% and aggressive 8.25%. (Worcester's pension system uses an 8.25% discount rate.)

<sup>6</sup> "Governor's 2011 Budget: The Worst is Yet to Come," the Massachusetts Taxpayers Foundation, March 1, 2010,

<http://www.masstaxpayers.org/files/Gov%202011%20budget%20bulletin%20with%20header%20a.pdf>

<sup>7</sup> This happened in the FY11 budget cycle. The House cut both Chapter 70 and general government aid to Worcester by \$1.4 million which, based on the state education contribution formula, reduced the City's contribution to the Worcester Public Schools by \$400,000.

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## The Research Bureau

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